

Message Text

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ACTION SS-30

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S E C R E T KINGSTON 1557

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E.O. 11652: GDS

TAGS: PINT, EMIN, US, JM

SUBJ: BAUXITE NEGOTIATIONS SITREP 37: NEGOTIATIONS SUSPENDED

1. BAUXITE NEGOTIATIONS WERE SUSPENDED INDEFINITELY YESTERDAY AFTER CUTLER AND MATALON AGREED IN A PRIVATE MEETING THAT FURTHER DISCUSSIONS AT THIS TIME WOULD BE FUTILE IN VIEW OF THE VERY MODERATE PROGRESS TO DATE IN CLOSING THE GAP BETWEEN GOVT AND INDUSTRY POSITIONS ON REVENUE ISSUES. A SHORT FORMAL MEETING WAS HELD YESTERDAY AFTERNOON IN WHICH THE GOVT NEGOTIATORS TOOK THE INDUSTRY TO TASK FOR DILATORY TACTICS, FAILING TO FACE THE ISSUE SQUARELY, AND SO ON. THEY SAID THAT THEY PLAN TO REPORT TO PM MANLEY FRIDAY AND THAT "THEIR JURISDICTION OVER THE MATTER CEASED AS OF TODAY." WHETHER THEY REGARD THEIR JURISDICTION AS HAVING CEASED BECAUSE THE THURSDAY DEADLINE HAD BEEN PASSED WITHOUT ACHIEVING A SOLUTION, OR WHETHER IT WAS BECAUSE A SOLUTION HAD PROVED IMPOSSIBLE IRRESPECTIVE OF DEADLINES, WAS NOT CLEAR. ALTHOUGH THE GOVT WAS FIRM IN THROWING THE BLAME ON THE COMPANIES FOR THE BREAKDOWN IN THE TALKS DURING YESTERDAY AFTERNOON'S MEETING THE TONE OF THE MEETING WAS NOT RPT NOT ANGRY OR BITTER AND IT WAS UNDERSTOOD THAT THE BREAKUP WAS MORE OR LESS BY MUTUAL AGREEMENT.

2. IN YESTERDAY MORNING'S PRIVATE MEETING WITH CUTLER MATALON FLOATED A NEW IDEA WHICH WOULD RELATE GOVT REVENUES FOR BAUXITE MINED TO THE QUALITY OF THAT BAUXITE. INDUSTRY NOT ENTIRELY CLEAR ON THE REVENUE IMPLICATIONS OF THIS NOTION BUT A PRELIMINARY CALCULATION SUGGESTS THAT IT MIGHT IN FACT CONSTITUTE A
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SLIPPAGE FROM APPROX 15 DOLLARS A TON TO AROUND 10 DOLLARS A TON

IN THE GOVT DEMAND. TAKEN WITH THE UPWARD REVISION OF THEIR OWN OPENING POSITION THIS CHANGE WOULD MEAN THAT THE GAP BETWEEN OPENING POSITIONS HAD BEEN HALVED (FROM 12 DOLLARS A TON TO ABOUT 6 DOLLARS A TON). ALTHOUGH THIS DEVELOPMENT SEEMS PROMISING IT SHOULD NOT BE OVEREMPHASIZED SINCE NEGOTIATIONS HAVE IN FACT CEASED FOR THE TIME BEING. IN A CONVERSATION WITH MATALON THIS MORNING CHARGE GOT THE IMPRESSION THAT MATALON'S PURPOSE IN FLOATING THIS NEW CONCEPT IS NOT SO MUCH TO REDUCE THE GOVT DEMAND IN A FACE-SAVING WAY AS A METHOD OF FAVORING COMPANIES THE GOVT HAS A PREFERENCE FOR FOR ONE REASON OR ANOTHER, ESPECIALLY REVERE AND ALCOA. THESE COMPANIES BY AND LARGE SIT ON LOWER GRADE ORE BODIES THAT THE OTHER 4 COMPANIES AND WOULD GET THE BAUXITE CHEAPER THAN THE OTHERS UNDER THE MATALON FORMULA.

3. MATALON THIS MORNING TOLD CHARGE THAT HE AND ROUSSEAU WERE SCHEDULED TO REPORT TO PM MANLEY IN THE COURSE OF THE MORNING AND FROM THEN ON ANY DECISIONS WOULD BE UP TO THE PM. HOWEVER MATALON EMPHASIZED HIS OWN FEELING THAT THEY SHOULD GO TO LEGISLATION IMMEDIATELY.

4. CHARGE IMPRESSED ON MATALON IN THE STRONGEST POSSIBLE TERMS THE PROBABLE ADVERSE CONSEQUENCES OF PRECIPITATE ACTION BY JAMAICA ON THE RELATIONSHIP BETWEEN JAMAICA AND THE US, AND ALSO THE PROBABLE LONG-TERM CONSEQUENCES OF SUCH ACTION FOR THE JAMAICAN ECONOMY. CHARGE SAID THAT IT WAS INCONCEIVABLE TO HIM THAT NEGOTIATIONS WHICH, AT THIS PHASE, WERE OVER STRICTLY COMMERCIAL ISSUES FROM WHICH EMOTION AND MATTER POLITICAL PRINCIPLE WERE LARGELY ABSENT COULD NOT BE BROUGHT TO A MUTUALLY ACCEPTABLE SOLUTION. HE SAID THAT ONE DIFFICULTY IN THE PRESENT SITUATION SEEMS TO BE THE NEGOTIATING MECHANISM (ALTHOUGH IT IS TRUE THAT THE COMPANIES ARE COOPERATING MORE FULLY THAN AT ANY TIME IN THEIR HISTORY THEIR DELIBERATIONS AND REACTIONS HAVE STILL BEEN SLOW AND CUMBERSOME). ANOTHER PROBLEM MAY BE PERSONALITIES.

5. FINALLY CHARGE SAID THAT AT THIS POINT THE REAL ARGUMENT SEEMED TO BE OVER WHO SHOULD BEAR THE RISK OF FUTURE UNCERTAINTIES IN THE INDUSTRY. SHOULD PRICE, YIELD, AND PROFITABILITY GO UP IN THE NEXT YEAR OR SO AS MUCH AS THE GOVT ANTICIPATED GOVT DOES NOT WANT TO BE LEFT HOLDING THE BAG IN TERMS OF A FORMULA BASED ON CURRENT YIELDS AND PROFITS. ALTERNATIVELY, IF YIELDS AND PROFITS FAIL

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TO RISE AS MUCH AS ANTICIPATED THE INDUSTRY DOES NOT WANT TO BE STUCK WITH A FORMULA BASED ON THAT EXPECTATION. CHARGE THEN SUGGESTED THAT A WAY OUT OF THE IMPASSE MIGHT BE A NEW NEGOTIATING MECHANISM (PERHAPS ONE-ON-ONE NEGOTIATIONS AT A HIGH LEVEL ASSISTED BY A MUTUALLY AGREED UPON CONCILIATOR); A NEW CAST OF CHARACTERS WHOLLY OR IN PART; AND PERHAPS A SHORT TERM RATHER THAN A LONG TERM AGREEMENT ON REVENUES AS THE OBJECTIVE. CHARGE POINTED OUT THAT IF GOVT'S PROJECTION TURNED OUT TO BE CORRECT

THEIR BARGAINING POSITION WILL BE INFINITELY STRONGER IN A YEAR THAN IT IS NOW AND IF THEY REALLY HAVE CONFIDENCE IN THOSE FIGURES A SHORT TERM AGREEMENT WOULD BE ACCEPTABLE TO THEM. LIKEWISE THE INDUSTRY WAS STILL NERVOUS ABOUT MAKING A LONG-TERM AGREEMENT O REVENUES WITH NO KNOWLEDGE OF WHAT THE ULTIMATE ARRANGEMENTS ON PARTICIPATION, LAND USE, AND RESERVES WOULD BE. A SHORT-TERM AGREEMENT WOULD ALLOW BOTH PARTIES TO PUT THE REVENUE ISSUES ASIDE FOR A YEAR WHILE NON-REVENUE QUESTIONS WERE NEGOTIATED.

6. MATALON REPLIED THAT HE WAS OPEN TO A NEW MECHANISM OR SYSTEM THAT LED TO A SOLUTION WHILE AT THE SAME TIME PROTECTING JAMAICA'S INTEREST, BUT EMPHASIZED THAT THE TIME WAS SHORT AND MADE CLEAR THAT HE HELD THE INDUSTRY RESPONSIBLE FOR FRITTERING AWAY THE PAST SIX WEEKS. HE INSISTED THAT EITHER A NEGOTIATED SOLUTION MUST BE ACHIEVED OR THE GOVT MUST TABLE LEGISLATION BEFORE IT MAKES ITS BUDGET PRESENTATION NOW SCHEDULED FOR MAY 8 (HOWEVER WE UNDERSTAND FROM ANOTHER SOURCE THAT THE BUDGET PRESENTATION HAS ACTUALLY BEEN POSTPONED UNTIL SOME TIME DURING THE WEEK OF MAY 13).
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